

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8112

BILL NUMBER: HB 1554

DATE PREPARED: Feb 3, 1999

BILL AMENDED:

SUBJECT: Tax abatement; research and development incentives.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Abatement period:* This bill provides that property tax abatement deductions may be granted for any number of years less than or equal to ten years. (Current law limits the abatement deduction to three, six, or ten years for real property and five or ten years for personal property.)

Research & development abatement: The bill provides that certain research and development equipment is eligible for property tax abatement deductions. It allows the abatement deduction for research and development equipment only if the equipment is used in a research and development facility engaged in activities devoted directly and exclusively to experimental or laboratory research and development for new products, new uses of existing products, or improving or testing existing products.

Research & development income tax credit: The bill also provides that the research expense credit against gross income taxes, adjusted gross income taxes, and supplemental corporate net income taxes expires on December 31, 2004 (instead of December 31, 1999). The bill increases the maximum amount of the research expense credit from 5% to 6.5%.

Effective Date: January 1, 1999 (retroactive); July 1, 1999.

Explanation of State Expenditures: *Abatement period:* The State Tax Board processes the personal property abatement forms and certifies the amount of assessed value (AV) to be abated to the county auditor. The Tax Board would need to alter the computer programs that process these forms because of the option to grant abatements from one to ten years in duration. The Tax Board should be able to complete this task with current resources.

Research & development tax credit: The changes in the research development tax credit rate will increase the Department of Revenue's administrative expenses by a minimal amount.

Explanation of State Revenues: *Research & development abatement:* The State levies a one cent tax rate on property for State Fair and State Forestry. Any change in the amount granted for abatements would change the amount received from this tax.

As explained below in Local Revenues, if there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls and the State Fair and State Forestry funds would receive increased revenues. If the investment would be made with or without the abatement then increased revenues to the State Fair and State Forestry funds would be foregone until the property is placed on the tax rolls.

(Revised) *Research & development tax credit:* This bill increases the research and development tax credit which is currently set at 5% of the eligible expenses to 6.5% effective January 1, 1999. The bill also extends the expiration of this tax credit from December 31, 1999 to December 31, 2004. In FY 96 and FY 97 approximately \$9.2 M and \$15.3 M of tax credits were claimed respectively. Assuming a similar range of tax credits are taken annually, the increase in the tax credit to 6.5% will result in an additional revenue loss of \$3 M to \$5 M annually beginning in FY 2000. However with additional incentives created for research and development activity, this credit could increase by an indeterminable amount. This would affect revenue collections deposited in the General Fund and Property Tax Relief Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Abatement period:* Currently, real property may be abated for 3, 6, or 10 years and personal property may be abated for 5 or 10 years. The length of abatement, within the above constraints, is left up to the local designating body. This proposal would allow the local designating body to determine the number of years, from one to ten, that a real property or personal property ERA abatement may be granted. The bill also reduces the abatement percentages for the five and ten year abatements on personal property.

While giving the local designating bodies more options as to the length of the deduction might produce overall shorter abatement periods for new abatements, it could also encourage an increase in the number of abatements granted. This is because sometimes a designating body might be reluctant to allow a long abatement period for a small project. This provision allows a shorter, possibly more equitable, alternative. Therefore, it could be concluded that, overall, this provision may have a minimal effect on the total amount of tax shift due to ERAs.

Research & development abatement: In addition to the types of property that may currently qualify for abatements, this bill would allow abatements for “new research and development equipment”. The equipment could consist of laboratory equipment, R&D equipment, computers, telecommunications equipment, or testing equipment. The equipment must be used in an R&D facility that is used exclusively for R&D of new products, new uses of existing products, or the improvement or testing of new products. Facilities used for efficiency surveys, management studies, consumer and economic surveys, advertising or promotion, and research on literacy or history projects would not qualify for an abatement under this provision.

If there is an increase in development because of this proposal, the new property would, at some point, be placed on the tax rolls. This could help spread the property tax burden and could possibly reduce some tax rates. However, if one assumes that the investment would be made with or without the abatement, an increase in abatements (ERAs) could also cause a delay of the shift of the property tax burden from all taxpayers to the owners of the new property until the property is placed on the tax rolls.

State Agencies Affected: State Board of Tax Commissioners; Department of Commerce; Department of Revenue.

Local Agencies Affected: County auditors; Local designating bodies; Counties; Municipalities.

Information Sources: Department of Revenue.